PROVINCE OF SASKATCHEWAN

2008

ANNUAL REPORT

MUNICIPAL EMPLOYEES' PENSION PLAN

Table of Contents

This annual report is available in electronic format at **www.peba.gov.sk.ca/mepphome.htm**

Letters of Transmittal

His Honour, The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2008.

Rod Gantefoer
Minister of Finance

Rod Gantefoer
Minister of Finance

Sir:

On behalf of the Municipal Employees' Pension Commission, I have the honour of submitting the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2008.

Roland Zimmer
Chair

Chair's Comments

On behalf of the Municipal Employees' Pension Commission, I am pleased to present the 2008 Annual Report of the Municipal Employees' Pension Plan. This report provides information about accomplishments in strategic initiatives, operating expenditures, pension payments and Plan membership in the Plan Expenditures and Statistics section.

It is the mandate of the Commission to oversee and direct the administration of the Plan. The Commission is charged with the responsibility of managing the assets in the best interests of its members and their beneficiaries.

The Commission has a multi-year strategic plan that sets out initiatives and activities in Effective Communications, Plan Governance, Risk Management, Service Delivery and Plan Design. The multi-year plan was adopted in 2006. Activity on the stated goals will occur through to 2009. A new strategic plan is in development. This annual report provides details of activities in 2008 and projects activities planned for 2009.

In 2008, a vendor was selected to develop an online retirement planner. The planner will assist members in planning for retirement and is planned to become available in 2009.

The MEPP Employer Remittance System continues to expand to allow employers to remit contribution information over the web, and streamlining the process of posting member contributions.

Since 1992, actuarial valuations have shown contribution rates paid into the Plan have not been high enough. Past surpluses have been used to subsidize contribution rates. We know those surpluses cannot be counted upon in the future.

Through presentations, the Commission informed the bodies that appoint members to the Commission that either an increase in rates or a decrease in benefits was required. All but one appointing body supported a contribution increase. Through a survey, members were posed those same questions. A majority of members and employers preferred a contribution increase. The Commission anticipates recommending to the Minister of Finance that there be contribution increases on January 1, 2010 and January 1, 2011.

Poor performance of global financial markets adversely affected the Plan. A 2008 extrapolation of the December 31, 2007 accounting actuarial valuation shows a deficit in the Plan. The Commission will be carrying out a valuation at December 31, 2008 to determine the financial situation of the Plan. The Commission is committed to keeping stakeholders apprised of the financial position of the Plan and how it is affected as we move ahead.

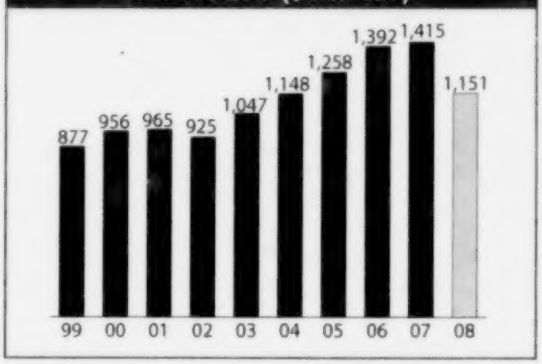
The Commission remains committed to a long-term investment strategy designed to balance risk and return in positive and negative markets.

Roland Zimmer
Chair

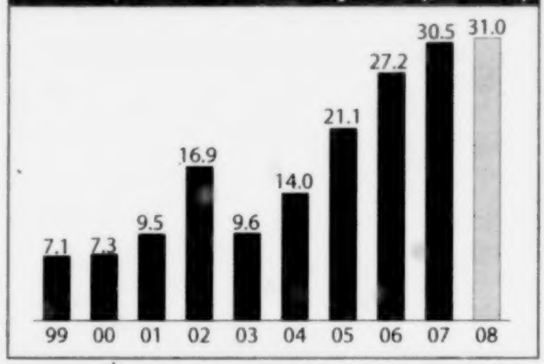
Financial Highlights

Total MEPP Fund Investment Performance										
	Annual Returns (%)									
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Total Fund Real Return	(16.2)	4.2	13.6	12.1	11.4	14.9	(2.1)	2.6	10.4	12.7
Benchmark	(17.7)	3.3	12.9	10.6	9.8	14.5	(6.1)	(3.2)	6.0	13.5
	Rolling 4-year Average Returns %									
Total Fund Real Return	2.7	10.3	13.0	8.9	6.5	6.2	5.7	8.9	12.7	14.9
Benchmark	1.7	9.3	12.0	6.9	3.4	2.5	2.3	6.4	10.8	13.7

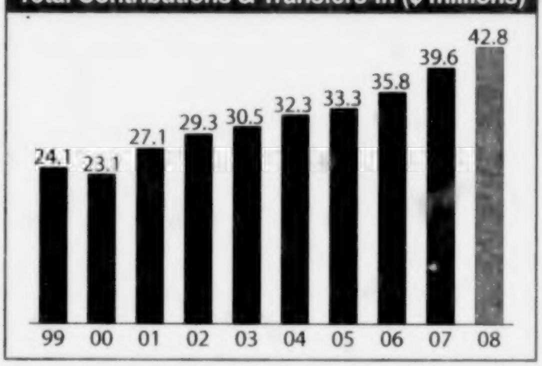
Total Assets ($ millions)



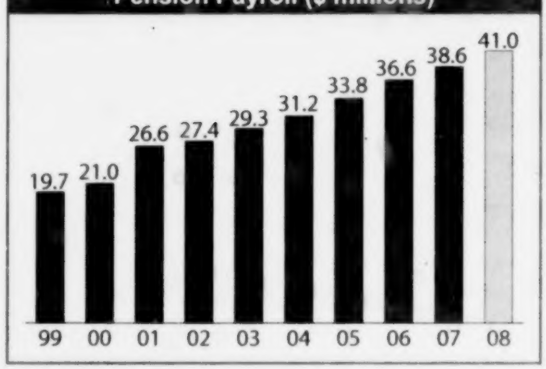
Transfers, Refunds & Benefit Payments ($ millions)



Total Contributions & Transfers-in ($ millions)



Pension Payroll ($ millions)



Comparative Investment and Administration Costs (000s)										
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Administration costs	3,162	2,822	2,540	2,328	2,051	2,643	2,660	2,068	2,279	2,251
Custodial fees	210	207	128	131	128	164	95	96	104	86
Investment fees	6,112	3,906	3,237	2,708	2,296	2,001	1,996	1,767	1,802	1,596
Totals	9,484	6,935	5,905	5,167	4,475	4,808	4,751	3,931	4,185	3,933

Introduction

The Municipal Employees' Pension Plan (MEPP) is a 'defined benefit' plan. Pensions are based on a formula that provides pension, disability, death and termination benefits for all eligible members. The formula is based on highest average salary, pensionable service and the accrual rate in effect during the years of service. Members contribute a fixed percentage of salary. Employers match these contributions.

The amount of pension a member will receive is not directly related to investment returns. An adequate level of contributions and positive investment returns are necessary to secure the Plan's ability to pay benefits.

Under normal retirement rules, members may retire and receive a pension with no reduction if they are 65 years of age or if their age plus eligibility service equal at least 80 years. Members may retire and receive a reduced pension if they have reached age 55 and have at least 15 years of eligibility service. Designated firefighters and police officers may receive an unreduced pension if their age plus eligibility service equal at least 75, they are 55 years of age, or have at least 25 years of eligibility service. These members may retire and receive a reduced pension if they have reached age 45 and their age plus eligibility service equal at least 70.

MEPP's history begins in the 1940s. Initially, the Rural Municipal Secretary Treasurer's Superannuation Plan was established in 1941. In 1949, the Urban Employees' Superannuation Plan was established. In 1959, these two plans joined to form the Municipal Employees' Superannuation Plan, which became the current plan in 1973.

MEPP is registered under the *Income Tax Act* (Canada) and is governed by *The Municipal Employees' Pension Act* and related Regulations, and *The Pension Benefits Act, 1992* and related Regulations.

The Plan holds more than $1.1 billion in total assets. MEPP's membership consists of more than 16,000 members and 4,000 pensioners.

Municipal Employees' Pension Commission

The Municipal Employees' Pension Commission (the Commission) administers MEPP. The Commission has the fiduciary responsibility for administering MEPP and managing the investment activities in the best interests of all MEPP members.

The Commission has 10 members, five appointed on behalf of participating employers and five on behalf of employees. The full term of office for Commission members is four years. A member may be appointed for two full terms. Each year the Commission members elect a Chair and a Vice-Chair. At December 31, 2008 the Commission was composed of the members listed in *Table 1.1*.

Municipal Employees' Pension Commission Members at December 31, 2008

Name	Position	Appointing Body
Roland Zimmer[1]	Vice-Chair	The Saskatchewan Urban Municipalities Association
Earl Braun	Member	Associations representing Designated Police Officers and Firefighters
Richard Buettner	Member	Saskatchewan School Boards Association
Jim Hallick	Member	The Saskatchewan Association of Rural Municipalities
Allan Johnson	Member	Regional Colleges/Regional Libraries
Betty Moleski	Member	Trade Unions representing employees who are members of the Plan
Bonnie Ozirny	Member	Saskatchewan School Boards Association
Ralph Paquin	Member	The Saskatchewan Association of School Business Officials
Orrin Redden	Member	The Urban Municipal Administrators' Association of Saskatchewan
Kevin Ritchie	Member	The Rural Municipal Administrators' Association of Saskatchewan

[1] Vice-Chair elected Chair November 16, 2008; effective January 1, 2009.
Carrie McCoshen served as Chair from January 1, 2008 to November 30, 2008.

Table 1.1

The Commission's Mission:

To oversee and direct the administration of the Plan and manage its assets in the best interests of members.

The Commission's Goals:

Communication
To inform plan members, beneficiaries, employers and plan sponsors through clear, timely and relevant communication of their benefits, duties and obligations under the Plan in a responsive and proactive way.

Decision-making principles
To make timely decisions in an open and otherwise appropriate manner which adhere to the procedural fairness and natural justice and ensure fair and equitable treatment in the best interest of plan members.

Management of assets and liabilities
To develop prudent investment policies that balance rate of return and risk in order to further the short-term and long-term financial health of the Plan. The funding policy enables the Commission to be proactive in managing the financial status of the Plan and helps to facilitate communication with stakeholders on the status of the Plan.

Cost-effective administration
To be cost-effective, efficient and responsive to the needs of the members, employers, and beneficiaries.

Advice to Government
To provide sound advice regarding plan design that takes into account pension industry standards, trends, the Saskatchewan environment and the needs of members and employers.

Commission
To be accountable when carrying out responsibilities, in keeping with best practices, standards, the Commission's fiduciary obligations and statutory requirements. The Commission will obtain information from pension industry experts to meet fiduciary responsibilities, educational needs and conduct a periodic self-assessment of the governance framework.

Municipal Employees' Pension Commission

Education

The Commission has an education program for Commission members. The purpose of the program is to ensure Commission members possess a sound knowledge and understanding of pension related issues. The Commission budgets $5,000 per year for each Commission member to undertake education.

Seminars, Courses and Other Events Attended by Commission Members in 2008

Commission Member	Education Events Attended	Registration Fees (Total)
Earl Braun	• CPBI[1] Forum 2008 • Annual Pension Information Session (PEBA) • Brandes Investment Conference	$1,500
Richard Buettner	• Basic Trustee Development Course (Humber College) • CPBI Getting to Liability Driven Investments - The Long Lonely Walk Home • CEB[2] Conference • CPBI Trends in Pension Planning • CPBI The Heat Is On • CPBI Questions About Pensions We are Afraid to Ask	$2,993
Jim Hallick	• Basic Trustee Development Course (Humber College) • Advanced Basic Trustee Course (Humber College) • CPBI The Heat is On • Brandes Investment Conference	$2,348
Allan Johnson	• CPBI Getting to Liability Driven Investments - The Long Lonely Walk Home • CPBI Spring Seminar and Annual General Meeting • CPBI Forum 2008 • Annual Pension Information Session (PEBA) • CPBI Trends in Pension Planning • CPBI Western Conference, Global Warnings • CPBI The Heat is On • Brandes Investment Conference • CPBI Questions About Pensions We are Afraid to Ask	$2,861
Carrie McCoshen	• CPBI Forum 2008 • Annual Pension Information Session (PEBA)	$1,400
Bonnie Ozirny	• Annual Pension Information Session (PEBA) • CEB Conference • Brandes Investment Conference	$1,880
Ralph Paquin	• CEB Conference • Foundation for Trustees 1 • Annual Pension Information Session (PEBA)	$2,730
Orrin Redden	• CPBI Spring Seminar and Annual General Meeting • Annual Pension Information Session (PEBA) • Advanced Basic Trustee Course (Humber College) • Brandes Investment Conference	$1,269
Kevin Ritchie	• Basic Trustee Development Course (Humber College) • Annual Pension Information Session (PEBA)	$1,150
Roland Zimmer	• Basic Trustee Development Course (Humber College) • Annual Pension Information Session (PEBA) • CEB Conference • Brandes Investment Conference	$2,805

[1] Canadian Pension and Benefits Institute
[2] Canadian Employee Benefits

Table 1.2

Municipal Employees' Pension Commission

Attendance

The Commission met eight times in 2008. *Table 1.3* shows the number of meetings each Commission member attended.

Name	Number of Meetings Attended
Earl Braun	7
Richard Buettner	7
Jim Hallick	1
Allan Johnson	8
Carrie McCoshen	8
Bonnie Ozirny	8
Ralph Paquin	7
Orrin Redden	7
Kevin Ritchie	6
Roland Zimmer	8

Table 1.3

Contracted Services

The Commission is ultimately responsible for the Plan's administration, communication and investment activities. To discharge these responsibilities, the Commission uses the services of various organizations.

The Commission contracts with the Public Employees Benefits Agency (PEBA) to provide administrative services for the Plan. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefits plans.

Under contract with the Commission, PEBA:

- Provides pension estimates, estimates on breakdowns of spousal relationships, and transfer values for members wishing to transfer into MEPP from other pension plans;
- Prepares annual member statements by the end of March of each year;
- Calculates termination, pension, and death benefits;
- Prepares statements to members regarding significant life events that affect Plan membership, such as termination, death, and the breakdown of spousal relationships;
- Accounts for all investment transactions;
- Collects members' and employers' contributions; and
- Provides executive management services to the Commission.

PEBA is responsible for ensuring that all transactions are made in accordance with *The Municipal Employees' Pension Act, The Pension Benefits Act, 1992*, and their related regulations.

The Commission retains RBC Dexia Investor Services Trust as the Plan custodian and Hewitt Associates as the investment consultant. The Commission also retains the eight investment managers listed in *Table 1.6*.

Strategic Initiatives

In 2006, the Commission adopted its multi-year Strategic Plan to achieve its stated goals through to 2009.

The Strategic Plan allows the Commission to focus on making key decisions that set a clear direction for the future of the Plan. Annual results are used to assess overall progress toward goals and initiatives and to adjust future plans and activities. Regular reporting allows the Commission to make necessary changes to resource allocations.

The Strategic Plan sets out initiatives and activities for the planning period within five categories:

1. **Effective Communications**:
   to meet the goal of Communication
2. **Plan Governance**:
   to meet the goals of Decision-making Principles and Accountability
3. **Risk Management**:
   to meet the goals of Management of Assets and Liabilities and Cost-effective Administration
4. **Service Delivery**:
   to meet the goal of Responsive to Member Needs
5. **Plan Design**:
   to meet the goals of Responsive to Member Needs and Accountability

In 2008, the Commission commenced development of a new strategic plan, which will be implemented in early 2009. Depending on the final results of the planning process, the activities planned for 2009 may change from those identified in this Annual Report.

1. Effective Communications

The Commission is aware of the importance of effective communications for Plan members and employers. The challenges are considerable given the complexity of the information being communicated and the large number of relatively small organizations participating in the Plan.

The Commission believes that it is important to target communications to members at various stages in their plan membership and particularly, to focus on members who are nearing retirement. The Commission strives to provide accurate and complete information to Plan members, and to strengthen two-way communications with stakeholders to facilitate member feedback.

In 2006, the Commission developed and adopted a three-year communication plan called *MEPP Exchange* to address gaps in Plan communications. In 2008 and 2009, the Commission will continue to implement the plan and evaluate its effectiveness.

The following are the main elements of *MEPP Exchange*:

- Develop and communicate a policy on employer responsibilities under MEPP;
- Enhance telephone customer service capabilities;
- Enhance MEPP's face-to-face presentation program;

Strategic Initiatives

- Assist members with retirement planning by helping members increase their awareness and understanding of:
  - o The value of MEPP as an important aspect of their retirement and,
  - o The role and responsibilities of each member in their own retirement planning;
- Establish a stakeholder consultation process; and,
- Enhance measurement and reporting on MEPP communications.

Published materials are available from the PEBA website at www.peba.gov.sk.ca. Printed copies of these materials may be obtained by telephone, FAX or e-mail request.

Effective Communications Activities

Activities planned for 2008

Strategic Initiatives

- The policy on employer responsibilities under MEPP developed in 2007 will be communicated to employers by Employer Bulletin in 2008.
- PEBA will continue creating, reviewing, revising, and updating member communications.
- Retirement planning information will be shared as set out in the policy adopted in 2006.
- A stakeholder consultation process will commence in 2008. The Commission is undertaking stakeholder consultation (initially with governing bodies) to discuss options to maintain the Plan related to employee and employer contributions.
- The Employer Administration Manual review and update will be completed and distributed to employers in 2008. The manual will guide employers in pension administrative processes.

Communications Strategies

- Work will continue on addressing the recommendations of *MEPP Exchange*, which will move into its third and final year. As the Commission finalizes the plan, it will also evaluate the plan's effectiveness.
- Communications initiatives outlined in the MEPP Employer Electronic Remittance Project communications strategy will be followed up in 2008.

Reporting

- There will be a continued emphasis on reporting in the Annual Report so that a focus on performance reporting can be maintained.
- A four-page summary of annual MEPP highlights will again be provided to members.

Employer Information

- All communications materials (including the MEPP website) will continue to be regularly reviewed to ensure the information provided is current, accurate and understandable.
- The Employer Manual will be distributed to employers in 2008.

Face-to-Face Member Information

- Continue representing MEPP at stakeholder trade shows.
- Continue delivering member presentations when requested by a group of 20 or more.
- Continue promoting presentations in the Plan newsletter and on the PEBA website.
- Continue working to improve the quality of information provided in presentations.
- Continue to develop retirement planning information for presentation at retirement sessions.

Newsletters

- Twice in 2008, publish and mail the Plan newsletter, *MEPP Matters*, to members, pensioners, employers, trade union representatives and Commission members. Delivery of the newsletter is planned for May and November.

Strategic Initiatives

Activities accomplished in 2008

Strategic Initiatives

- An Employer Bulletin outlining the responsibilities of communicating under the Plan was developed. It was distributed to employers in May 2008.
- Work is underway to develop an online retirement planner for members in 2009.
- Creating, reviewing, revising, and updating member communications is an ongoing process. It has been carried out as required throughout the year.
- As part of the stakeholder consultation process regarding plan design and funding issues, the Commission conducted stakeholder presentations and administered a survey to Plan members and participating employers. For more information on this initiative, see Plan Design.
- The Employer Manual was re-designed.

Communications Strategies

- PEBA provided a report card updating activities to the Commission in September 2008. It is anticipated that enhanced measuring and reporting on MEPP communications will be part of the strategic planning process in 2009.
- The Employer Remittance System was rolled out. Written communication was developed for roll out. MEPP administration has frequent contact with employers about signing up to use the system.

Reporting

- Performance reporting in the Annual Report has been further enhanced in this Annual Report.
- A two-page MEPP Highlights annual summary was provided to members in May 2008.

Employer Information

- The Employer Manual was distributed to MEPP-participating employers in November 2008, in binder and compact disk format and posted to the website.
- Website images and some design elements were refreshed in April 2008. In November 2008, the structure of the website was changed to reflect a "lifecycle". This was done to make it easier for members to find information.

Face-to-Face Member Information

- The Retire*With*Ease presentation was promoted in the Spring 2008 issue of *MEPP Matters*, which was mailed in May 2008.
- An online registration system is being assessed and would promote presentations.
- MEPP participated in three trade shows, made two employer presentations to a total of 250 people and conducted eight plan overview sessions to 210 members. All sessions received positive feedback.
- The roll out of retirement planning sessions was conducted by PEBA for one employer in September 2008. PEBA will determine the best way to roll out future sessions.

Newsletters

- The *MEPP Matters* newsletter was published and mailed to members, pensioners, employers, trade union representatives, and Commission members in May and December of 2008.

Activities Planned for 2009

- Evaluate policy on employer responsibilities under MEPP.
- Continue creating, reviewing, revising and updating member communications.
- Evaluate policy on providing retirement planning information; revise if indicated.
- Evaluate measurement and reporting on MEPP communications; identify further opportunities for enhancement.
- Review and modify employer manual as required.

2. Plan Governance

Plan governance is the process and structure used to administer pension plans in accordance with legislative requirements and in the best interests of plan members. The Commission is always aware of its fiduciary responsibility to plan members and remains committed to strengthening its governance program.

The Commission conducts an annual self-assessment and discusses and pursues any opportunity to improve the way in which the Commission is functioning and discharging its governance duties.

Building on what has already been accomplished, the Commission has focused in this planning period on the following priorities:

- Developing policies the Commission has identified as needed;
- Reviewing the effectiveness of the Commission's knowledge and skill development process;
- Further strengthening the orientation process to include a mentoring program;
- Reviewing how the Commission allocates its time and sets its agendas; and
- Continuing to improve accountability through performance measurement and reporting.

Plan Governance Activities

Activities planned for 2008	Activities accomplished in 2008
• Conduct annual assessment of the plan governance program. • Review effectiveness of the Commission's knowledge and skill development process. • Determine how to strengthen the Commission's orientation process, including an assessment of the value of a mentoring program. • Identify the measures in place for accountability through performance measures and reporting. • Develop performance measures for communication based on policies developed and objectives identified in the Canadian Association of Pension Supervisory Authorities Governance Self-Assessment Questionnaire. • Implement rules and procedures for receiving, reviewing and acting on information and reports. • Work toward the completion of the Plan's policy manual. • Conduct a review of how the Commission allocates its time and sets its agendas.	• The Commission's 2008 Governance Self-Assessment Questionnaire was completed and presented at the Commission's November 2008 meeting. • The Commission approved changes to its education and orientation program, including a plan to further develop the program, in May 2008. • The Commission received a briefing at its September 2008 meeting identifying current performance measures and making recommendations for further measures to strengthen accountability measurement. The new measures are directed at strengthening communications to stakeholders as identified in the CAPSA Governance Self-Assessment Questionnaire. • The development and implementation of rules and procedures for receiving, reviewing and acting on information and reports will be undertaken in 2009. • Policy manuals containing the most current policies were distributed to the Commission at its meeting in June 2008.

- In June 2008, the Commission reviewed its meeting agenda to ensure that it is fulfilling its obligation to provide proper oversight of the Plan.

Activities planned for 2009

- Conduct an annual assessment of the plan governance program.
- Implement performance measures for communication based on policies developed and objectives identified in CAPSA Governance Self-Assessment Questionnaire.
- Conduct first annual review of rules and procedures for receiving, reviewing and acting on information and reports.
- Completion of policies for MEPP and compilation of completed policy manual.
- The Commission will further review its meeting agenda to ensure that it is fulfilling its obligation to provide proper oversight of the Plan.

3. Risk Management

Effective governance requires a strong focus on risk management, the basis of which is the identification and quantification of risks and the development and implementation of effective strategies to manage the risks. The Commission has made considerable progress in building an effective risk assessment process and in closing gaps in their risk strategy.

The Commission has identified the following potential risks that could adversely impact the operation of the Plan:

- Insufficient assets to meet benefit obligations and instability of contribution requirements;
- Excessive expenses;
- Service provider failures;
- Non-compliance with legislative and common-law requirements;
- Failure to meet the needs of Plan members and participating employers; and,
- Communications that are incorrect, untimely or inaccurate.

The Commission addresses these risks through ensuring clear policies are in place to guide its decisions and the actions of its service providers, through measuring against clear benchmarks the performance of its service providers, and through regular monitoring of all aspects of Plan operations.

During the planning period the Commission and its service providers focused on:

- Continuing to identify and analyze the risks the Plan and Commission face;
- Assessing the effectiveness of the controls that are in place and the existing reporting processes; and,
- Conducting an investment review.

Strategic Initiatives

Risk Management Activities

Activities planned for 2008

- Review and revise the Commission's funding policy regarding the indexing of non-indexed annuities.
- Conduct an annual risk management assessment. Determine if a third-party review of the risk management plan is needed.
- Link objectives of funding policy with the investment policy.
- Identify risks associated with the plan based on the funding policy and develop a contingency plan for minimizing risks.
- Conduct an investment policy review.
- Implement a stakeholder consultation process that allows the Commission to consult with stakeholders on plan design issues.
- Conduct a third party review of PEBA's compliance with the agreement between the Commission and PEBA.
- Continue to develop the Commission's Policy Manual.

Activities accomplished in 2008

- The Commission approved amendments to its funding policy to address the implicit post-retirement indexing assumption for the calculation of commuted values of pre-1999 accrued benefits, as well as the indexing of annuities underwritten by the Plan.
- The Commission approved its 2007 Risk Management Assessment and 2008 Risk Management Plan in January 2008. Assessment of the necessity of a third-party review of the risk management plan will be undertaken in 2009.
- The Commission is considering conducting an asset/liability study to link the objectives of the funding policy with the objectives of the investment policy. The project has proven to be larger in scope than anticipated. The Commission will issue a request for proposals in 2009 and select a vendor to conduct the study in 2009.
- The investment policy was reviewed and approved in March 2008.
- The Commission conducted stakeholder presentations and administered a survey to Plan members and participating employers. For more information on this initiative, see *Plan Design*.
- The Commission's auditor, Meyers Norris Penny, conducted an audit of the PEBA's compliance with its contract with the Commission in February 2008. PEBA provided the Commission with a report in response to the audit findings in May 2008. The report proposed ranges for each performance measure to better assess PEBA's compliance with the measure.
- In 2008, the Commission reviewed and approved amendments to the following policies:
- Funding of the Municipal Employees' Pension Plan and Waiver of Contributions due to Disability.

Activities planned for 2009

- Conduct an annual risk management assessment;
- Further investigate conducting an asset/liability study to link the objectives of the funding policy with the objectives of the investment policy in order to determine the best approach and appropriate funding for 2009-2010.
- Conduct an investment policy review;
- Determine measures to take in response to results of stakeholder consultation process. For more information on this initiative, see Plan Design.
- Review PEBA's compliance with the agreement between the Commission and PEBA.
- Continue to develop the Commission's Policy Manual.

Strategic Initiatives

4. Service Delivery

Service Delivery is challenging given the nature of the pension plan and the variety and geographic distribution of members and employers within the Plan.

The Commission reviews its service delivery practices in an integrated and collaborative manner and implements changes that supports its fiduciary obligation to plan members.

In the previous planning period, the Commission conducted a review of its service delivery focusing on member and employer needs, best practices and delivery options. In 2006, the Commission reviewed its overall service delivery strategy.

In 2008, the Commission focused on the following areas:

- Pursuing its service delivery implementation plan; and
- Developing, monitoring, and evaluating service delivery performance measures.

The Commission monitors current practices and implemented changes to ensure their effectiveness in providing consistent levels of client service.

The contract for administrative services with PEBA establishes service standards for the tasks that PEBA performs for the Commission. Eight service standards are tracked, including termination option letters, pension estimates, and payments. *(Table 1.4)*

Service Delivery Activities

Activities planned for 2008

- Develop and submit Request for Proposal to determine vendor for Pension Calculator.
- Development and roll out of the online Pension Calculator.
- Track and measure MEPP telephone customer service and enhance telephone customer service capabilities;
- Review adequacy of the current number of Automated Call Distribution lines and adjust if required.
- Develop and distribute online forms.
- Initiate process review.
- Develop and distribute a training and support program for employers.

Activities accomplished in 2008

- The Pension Calculator Request for Proposal was issued in February 2008. The Commission received seven proposals, selecting AON Consulting as the vendor for the project.
- Development of the Pension Retirement Calculator is underway. AON Consulting presented a prototype to the project team and steering committee in October 2008. The project will be completed and rolled out in 2009.
- A review of the calls received found that the current toll free call distribution system, while randomly distributing calls, is the most appropriate system at the current time.
- Online forms were developed for member and employers. Member forms have been placed on the website. Forms for use exclusively by employers have not been posted to the website. They are available on request.
- A review of the process involved in transferring pensions between MEPP and other pension plans has commenced.
- MEPP completed and rolled out the Employer Remittance System. By December 31, 2008, 56 employers had enrolled to use the system.

Strategic Initiatives

Activities planned for 2009

- Roll out of online Pension Calculator.
- Enhance telephone customer service capabilities – track and measure MEPP telephone customer service.
- Review and update online forms.
- Complete process review.
- Review and modify the training and support program.

Service Standards for the period January 1 through December 31, 2008

Task	Number Completed	Number that Meet or Exceed Standard	% that Meet or Exceed Standard	Standard (Days)
Termination Option Letters	1,355	1,156	85	30
Pension Estimates	410	395	96	15
Breakdown of Spousal Relationship Calculations	31	29	93	15
Pensioner Deaths	147	122	82	10
Member Deaths	38	34	89	10
Payments	1,466	1,208	82	10
Purchase of Service	40	36	90	30
Portability Transfer Value	41	27	65	30
Totals	3,528	3,007	85	

Table 1.4

5. Plan Design

The Plan is a key element of the overall financial security of its members and an important component of employers' human resources strategies. Over the coming years, MEPP can expect to face challenges as a large body of the Plan's membership moves closer to retirement.

The Commission is committed to ensuring that the Plan responds to these challenges and meets the needs of its members and employers, as well as to providing sound policy advice to government.

In 2008, the Commission's activities have focused on the following areas:

- Being proactive on determining member and employer needs and preferences and identifying design responses to these needs;
- Consulting with stakeholders regarding the Commission's funding policy; and,
- Identifying Plan design responses to member and employer needs and preferences.

Plan Design Activities

Activities planned for 2008
• Implement the stakeholder consultation process to allow the Commission to meet and consult with stakeholders on plan design issues.

Activities accomplished in 2008
• The presentation schedule for the stakeholder consultations on Plan design and funding was finalized in April 2008. A total of 11 presentations were conducted during April, May and June 2008. • The Commission received a report in September 2008 regarding the feedback received from appointing bodies involved in the stakeholder consultations. • A survey and letter were mailed to employers and members in October 2008. By the November 31, 2008 deadline, approximately 20 per cent of surveys had been completed and returned. The results were reported to the Commission in January 2009. The results showed a clear majority of members and employers – 71.1 per cent of active members who replied and 81.1 per cent of employers who replied – in favour of an increase to contribution rates.

Activities planned for 2009
• Prepare and review report on the results of employer and member consultations. • Develop a process to implement an increase to contribution rates based on the results of the stakeholder consultations; the process will include a recommendation on the amount of the increase and an implementation schedule.

Investments

Trustees

As trustees of the Municipal Employees' Pension Fund, the Municipal Employees' Pension Commission is responsible for prudently investing the Fund's monies.

Investment Policy

In fulfilling its responsibility to prudently invest the Fund's assets, the Commission has adopted an investment policy for the Plan. This policy is set out in the Statement of Investment Policies and Procedures (SIP&P), which the Commission reviews annually.

The SIP&P contains guidelines for investment of Plan assets, and includes:

- Investment and risk philosophy;
- Asset mix and diversification policy;
- Rate of return benchmarks for each investment manager and for the Fund;
- Permitted and prohibited investments;
- Monitoring and control responsibilities;
- Selecting and terminating investment managers; and
- Conflict of interest guidelines.

Investment Managers

The Commission delegates responsibility for investing the Plan assets to professional investment managers. Each manager invests within a specific mandate, as outlined in *Table 1.5*. Investment managers were paid a total of $5,998,000 in 2008.

Asset Allocation by Manager

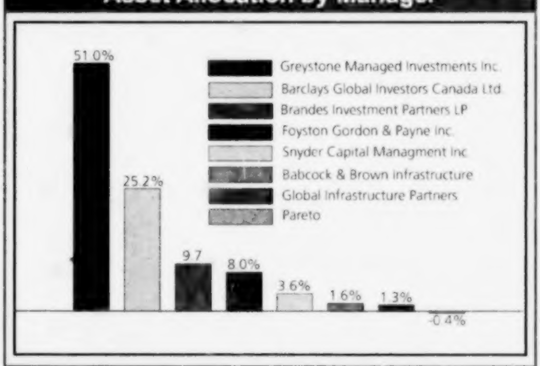


Figure 1.1

Investment Consultant

The Plan's investment consultant is Hewitt Associates. The investment consultant monitors the activities of the investment managers and reports the results to the Commission. The Commission paid Hewitt $114,330 in 2008.

As of December 31, 2008 the investment managers invested the portions of the portfolio shown in *Figure 1.1*.

Custodian

The Commission retains RBC Dexia Investor Services Trust as the custodian of the Plan. The custodian is responsible for:

- Safekeeping of assets;
- Collection of income;
- Settlement of investment transactions; and
- Accounting for investment transactions.

RBC Dexia received $210,000 in fees in 2008.

Fees Paid for Investment Services in 2008	
Investment Managers (total)	$5,998,000
Investment Consultant	114,330
Custodian	210,000
Total	$6,322,330

Table 1.5

Figure 1.1 shows the portion of the Fund's assets managed by the investment managers. Investment manager mandates are shown in *Table 1.6*.

Table 1.5 shows the total fees paid for investment services in 2008.

Investments

Investment Manager	Mandate
Babcock & Brown Fund North America	Infrastructure
Barclays Global Investors Canada Ltd.	U.S. Equities, Canadian Bonds
Brandes Investment Partners, LP	Non-North American Equities
Foyston, Gordon & Payne Inc.	Canadian Equities
Global Infrastructure Fund	Infrastructure
Greystone Managed Investments Inc.	Balanced
Pareto Investment Management Ltd.	Currency
Snyder Capital Management, LP	U.S. Equities

Table 1.6 Investment Manager Mandates

Table 1.6 shows the mandates of the various investment managers.

Figure 1.2 shows the benchmark asset mix by asset class. This is the combined mix of assets managed by the various investment managers.

Investment Objectives

Total Fund

The long term goal of the total Fund is to achieve a minimum annual rate of return of 3.5 per cent above inflation, as measured by the Consumer Price Index (CPI). The CPI is a measure of the average change over time in the prices of consumer goods and services. The Commission monitors and assesses this goal over the long term (10 years or more).

To achieve its goal, the Commission has established:

- A long-term strategic asset mix that is reflected by the Plan's benchmark (a standard against which performance is measured); and,
- An investment management structure consisting of one or more investment managers in each major asset class.

The Commission delegates day-to-day responsibilities for managing assets to the Plan's investment managers. Subject to the Plan's SIP&P, the managers may hold, buy or sell investments to achieve performance objectives set by the Commission for their mandates.

The Fund's main objective is to exceed the return of the benchmark portfolio, net of investment management fees, over a rolling four-year period.

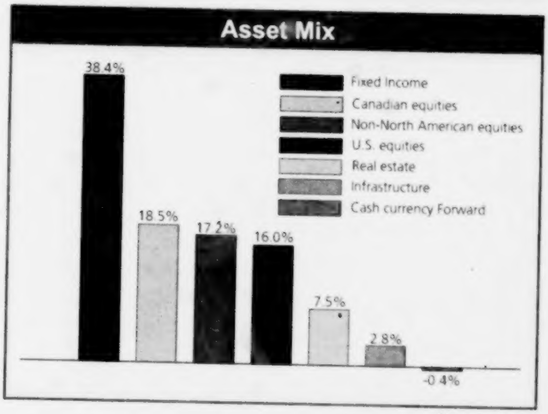


Figure 1.2

The Fund structure includes a balanced fund manager and a number of managers that specialize in various asset classes. The primary objective for the balanced fund manager is to earn a return, net of investment management fees, that exceeds the manager's benchmark portfolio return. A secondary objective is to earn returns above the benchmark index in each asset class within the balanced fund.

The returns of specialty managers are monitored for performance against the relevant asset class benchmarks. Active managers are tasked with exceeding a benchmark, while passive managers are engaged to match a benchmark. A manager's rate of return is also compared with those of a peer group of managers.

Investments

Plan Benchmarks by Asset Class				
Asset Class	**Class Market Index**	**Minimum Investment (%)**	**Benchmark* Portfolio (%)**	**Maximum Investment (%)**
Canadian Equities	S&P/TSX CPMS Cap 10	15 (14)	**21 (19)**	30 (28)
US Large Cap Equities	S&P 500 and S&P 500 Hedged	10	**14**	18
US Small/Mid Cap Equities	Russell 2500	2	**4**	6
Non-North American Equities	MSCI EAFE	14	**18**	22
Canadian Bonds	DEX Universe Bond Index	22 (20)	**36 (33)**	54 (52)
Infrastructure	Consumer Price Index plus 2%	-	**- (5)**	- (8)
Real Estate	Investment Property Databank	3	**5**	8
Short-term Investments	91 Day T-Bills	0	**2**	20
See Appendix 'A' for descriptions of market indices.			**100**	

** Existing guidelines were effective July 1, 2006. New guidelines, to reflect a 5% allocation to infrastructure, are expected to be phased in over a two to three-year time period commencing in late 2007.*

Table 1.7

Fund Performance

Fund Investment Performance

The Commission reviews the performance of the Fund in terms of the performance of a benchmark portfolio over rolling four-year periods. The performance of individual investment managers is measured against the objectives set for their individual portfolios.

The Fund's investment performance as at December 31, 2008 is summarized in *Figure 1.3.* The Fund had a return of -16.2% for the year ended December 31, 2008, outperforming the benchmark by 1.5 percentage points. Over the past four years, the Fund had an annualized return of 2.7%, exceeding the benchmark by a percentage point.

Balanced Manager

The balanced mandate, actively managed by Greystone Managed Investments Inc. (Greystone), is compared to a blended benchmark. *Table 1.8* shows the balanced mandate benchmark indexes by asset class. Greystone's performance for each asset class it manages is included in the asset class analysis.

The balanced mandate provided a return of -12.5% in the year ended December 31, 2008, underperforming the benchmark by 1.2 percentage points. Over four years, the balanced mandate provided an annualized return of 4.6%, outperforming the benchmark by 1.1 percentage points. (*Figure 1.4*)

MEPP Plan Performance

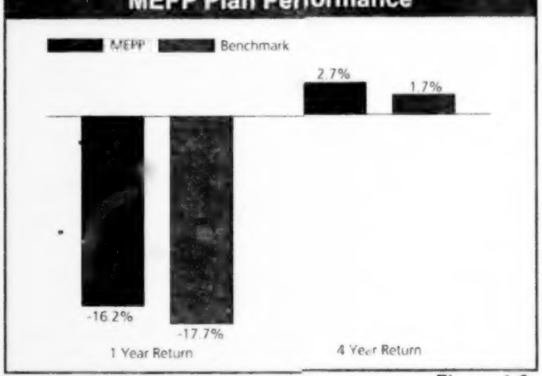


Figure 1.3

Balanced Mandate Performance

Figure 1.4

Investments

Balanced Mandate Benchmarks by Asset Class				
Asset Class	**Class Market Index**	**Minimum Investment**	**Benchmark Portfolio**	**Maximum Investment**
Canadian Equities	S&P/TSX CPMS Cap 10	16.0%	**22.0%**	34.0%
US Large Cap Equities	S&P 500 & S&P 500 Hedged	5.0%	**8.0%**	12.0%
Non-North American Equities	MSCI EAFE	12.0%	**16.0%**	20.0%
Canadian Bonds	DEX Universe Bond Index	20.0%	**40.0%**	60.0%
Real Estate	Investment Property Databank	6.0%	**10.0%**	16.0%
Short-term Investments	91 Day T-Bills	0.0%	**4.0%**	35.0%
Mortgages		0.0%	**0.0%**	8.0%
			100.0%	

Table 1.8

Canadian Equity Managers

The Plan's Canadian equity managers are Greystone and Foyston, Gordon & Paynê Inc. (Foyston). Both are active managers and are measured against the S&P/TSX CPMS Cap 10. (*Figure 1.5)* Their complementary management styles help ensure diversification of the Fund's investments.

In the year ended December 31, 2008, Greystone's Canadian equity component returned -36.6%, underperforming the benchmark by 3.6 percentage points. Over four years, Greystone outperformed the benchmark by 1.3 percentage points, achieving an annualized return of 3.0%.

In 2008, Foyston returned -31.4%, outperforming the benchmark by 1.6 percentage points. Foyston's four-year annualized return of 1.1% is 0.6% below the benchmark.

US Equity Managers

The Plan's US equity managers include Greystone, Barclays Global Investors Canada, Ltd. (Barclays), and Snyder Capital Management, LP (Snyder).

Greystone is an active manager measured against the benchmark S&P 500. Managing US large cap equities, Greystone realized a negative return of 20.6% in the year ended December 31, 2008, outperforming the benchmark by 0.6 percentage points. Greystone's four-year annualized return of -2.7% outperformed the benchmark by 1.8 percentage points. (*Figure 1.6*).

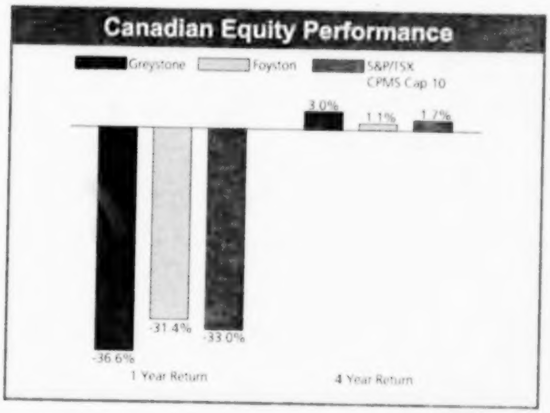


Figure 1.5

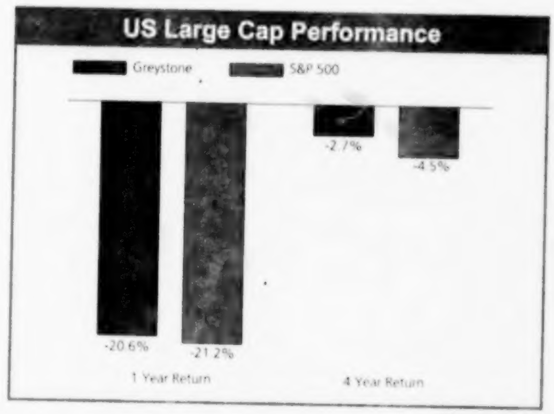


Figure 1.6

Investments

Barclays manages passive, hedged U.S. equity investments and is measured against the hedged S&P 500 Index. Barclays underperformed the benchmark by 0.2%, returning -39.2% for the year ended December 31, 2008. Over four years, Barclays underperformed the benchmark S&P 500 Hedged return by 0.1%. *(Figure 1.7)*

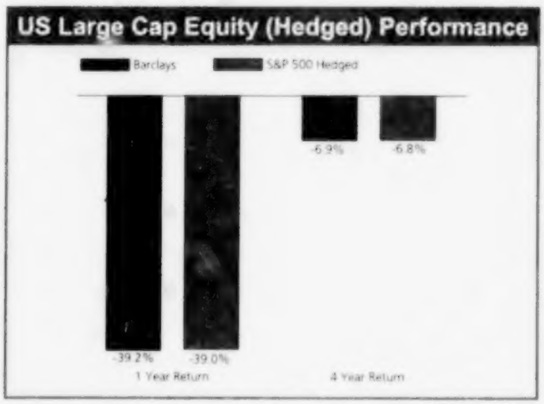


Figure 1.7

Snyder actively manages the small and mid-cap US equity portfolio. Because Snyder was new to the Plan in 2005, four-year performance figures are not available.

Snyder provided a return of -17.9% for the year ended December 31, 2008. This return outperformed the Russell 2500 index by 3.0 percentage points. *(Figure 1.8)*

Figure 1.8

Non-North American Managers

The Plan's Non-North American investment managers include Greystone and Brandes Investment Partners, LP (Brandes). Their performance is measured against the MSCI EAFE.

Greystone and Brandes employ different management styles that complement one another, helping ensure diversification of the Fund's investments.

Greystone returned -34.2% in the year ended December 31, 2008, which underperformed the benchmark by 5.0 percentage points. Over four years Greystone provided a -1.9% return, underperforming the benchmark by 0.1%.

Brandes provided a -21.0% return for the year ended December 31, 2008, outperforming the benchmark by 8.2 percentage points. The four-year annualized return of 0.9% was 2.7 percentage points higher than the benchmark. *(Figure 1.9)*

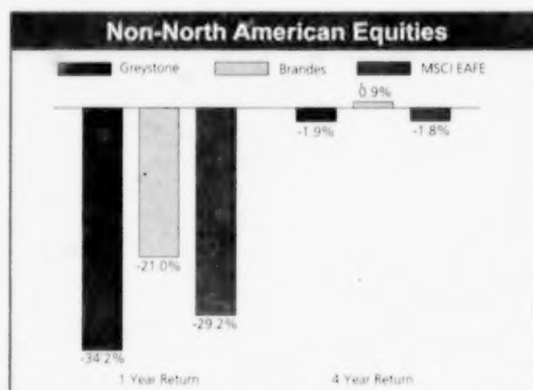


Figure 1.9

Real Estate Manager

Greystone is the manager for the real estate portfolio. Real estate provided a return of 9.9% for the year ended December 31, 2008. This return outperformed the estimated Investment Property Databank benchmark by 1.6 percentage points. Greystone's four-year annualized return was 18.6%, which is 3.4 percentage points above the estimated benchmark return for the same period. *(Figure 1.10)*

Investments

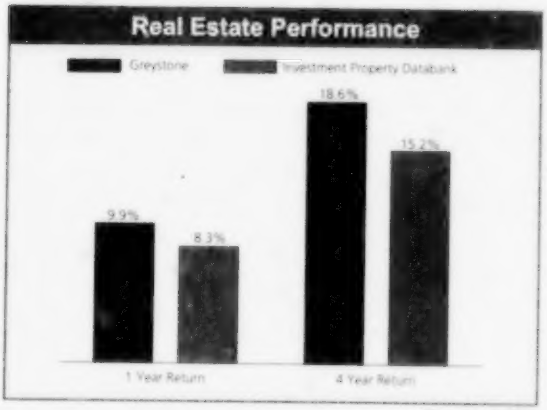


Figure 1.10

Bond Managers

The Plan's bond managers, Greystone and Barclays, are compared with the DEX Universe Bond Index, as shown in *Figure 1.11*.

For the year ended December 31, 2008, Greystone underperformed this benchmark by 1.7 percentage points, providing a return of 4.7%. Greystone's four-year annualized return of 5.0% was 0.1 percentage points below the benchmark.

Barclays, the Plan's passive bond manager, came in 0.2 percentage points below the benchmark for the year ended December 31, 2008, returning 6.2%. Barclays' four-year annualized return of 5.1% matched the benchmark.

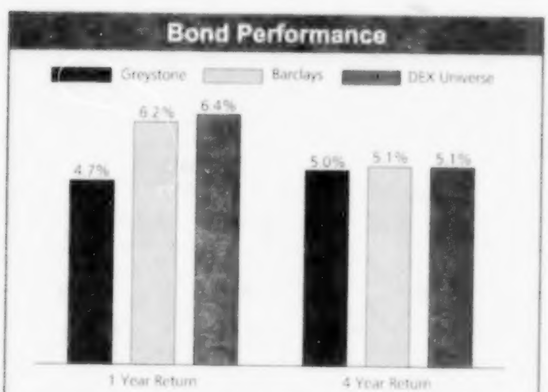


Figure 1.11

Currency Manager

Pareto is the Plan's currency manager. Their mandate is to actively manage currency risk to reduce the impacts of foreign currency exposures on the Plan. They also add value to the Plan by trading major currencies for financial gain. Pareto's performance is benchmarked against a passive 50% currency hedge.

For the year ended December 31, 2008, Pareto returned 11.0%, outperforming the benchmark by 0.3 percentage points.

Because Pareto was new to the Plan in 2006, four-year performance figures are not available.

Infrastructure Managers

The Plan is invested in two infrastructure funds; the Babcock & Brown Infrastructure Fund North America and the Global Infrastructure Partners Fund. The performance of both funds is compared to an absolute benchmark of 100% of the Canadian Consumer Price Index plus 2%. Both funds are currently in the initial investing phase which can take several years to complete. At December 31, 2008, the Plan had contributed approximately 38% of its capital commitment. Consequently, a return for 2008 is unavailable.

Investments

Investment Returns (%) by Asset Class at December 31, 2008								
Annual Returns								
	Total Fund	Balanced mandate	Canadian equities	US equities	Non-North American	Real estate	Bonds	Currency (Hedged)
Return	-16.2	-12.5	-33.8	-30.9	-26.5	9.9	5.4	11.0
Benchmark	-17.7	-11.3	-33.0	-21.2	-29.2	8.3	6.4	10.7
Rolling 4-year Average Returns								
Return	2.7	4.6	2.3	-4.5	-0.2	18.6	4.9	n/a
Benchmark	1.7	3.5	1.7	-4.5	-1.8	15.2	5.1	n/a

Table 1.9

Plan Expenditures and Statistics

Pension Payments

In 2008, MEPP made monthly pension payments to 4,107 pensioners, paying approximately $41.0 million.

PEBA's service objectives are to ensure that all payments are made by their due dates and that all supplemental increases for pensioners are processed on a timely basis. PEBA met these objectives in 2008.

The number of member retirements in 2008 is shown in *Table 1.10*.

Retirement Comparisons	2008	2007
Normal Retirement	46	60
Early Retirement	117	84
Postponed Retirement	4	3
Temporary Pension	13	19
Total	180	166

Table 1.10

Plan Membership

Plan membership increased in 2008 for active and pensioner members, as is shown in *Table 1.11*.

Plan Membership Comparisons	2008	2007
Active	12,721	12,161
Inactive	4,169	4,314
Pensioners	4,107	4,013

Table 1.11

Income Allocation

In 2008, the Commission allocated interest to members' accounts at the rate of -16.23% per annum.

Supplemental Increases for Pensioners

Effective January 2008, indexing of 2% was applied to defined benefit pensions earned on service prior to 1999.

Operating Expenditures

Table 1.12 shows plan operating expenditures for the year ended December 31, 2008.

Administration Expenses (000s)	
Administration costs	$3,162
Custodial fees	210
Investment consultant fees	114
Investment management fees	
Global Infrastructure Partners – C, LP	1,804
Greystone Managed Investments Inc.	1,052
Foyston, Gordon & Payne Inc.	408
Brandes Investment Partners, LP	780
Barclays Global Investors Canada Ltd.	118
Snyder Capital Management, LP	542
Pareto Investment Management Ltd.	578
Babcock & Brown Infrastructure Fund North America LP	716
	$9,484

Table 1.12

Plan Expenditures and Statistics

Active Employers

In 2008, there were 715 employers participating in the Plan.

The distribution of employers by employment sector is shown in *Table 1.13* and *Figure 1.12*.

MEPP Active Employers	Number	(%)
Cities	7	1.0
Other	16	2.2
Regional Colleges	7	1.0
Regional Libraries	8	1.1
Rural Municipalities	296	41.4
School Divisions & Boards	25	3.5
Towns	144	20.1
Villages	212	29.7
Total Participants	715	100.0

Table 1.13

MEPP Active Employers

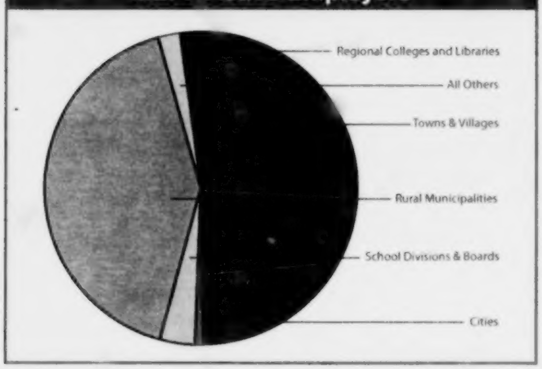


Figure 1.12

Active Members by Employer

The distribution of the Plan's active members by employer is shown in *Table 1.14* and *Figure 1.13*.

MEPP Active Members by Employer	Number	(%)
Cities	1,112	8.5
Other	82	0.6
Regional Colleges	457	3.5
Regional Libraries	372	2.8
Rural Municipalities	1,191	9.1
School Divisions & Boards	8,375	63.6
Towns	1,156	8.8
Villages	413	3.1
Total Participants	13,158	100.0

The number of total participants in this table differs from the total active members in Table 1.10 because some members work for more than one employer.

Table 1.14

MEPP Active Members by Employer

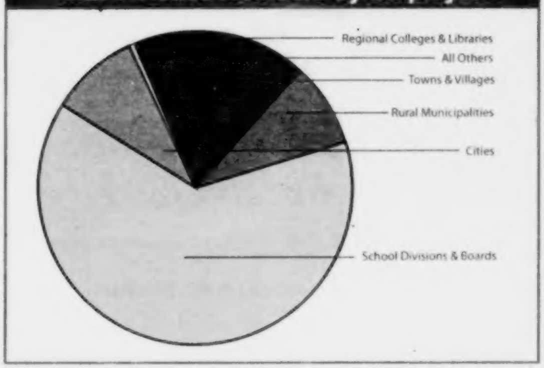


Figure 1.13

Management's Report

To the Members of the Legislative Assembly of Saskatchewan:

Administration of the Municipal Employees' Pension Plan is presently assigned to the Public Employees Benefits Agency of the Ministry of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with Canadian generally accepted accounting principles. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The provision for annuity benefits and the accrued pension benefits are determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events and require approval by management.

The financial statements have been audited by Meyers Norris Penny whose report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

A. Mackrill

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

K Deck

Kathy Deck
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
February 19, 2009

Actuaries' Opinion

Eckler Ltd. was retained by the Municipal Employees' Pension Commission (the Commission) to perform actuarial valuations of the provision for annuity benefits and accrued pension benefits of the Municipal Employees' Pension Plan (the Plan) on an accounting basis as at December 31, 2007. Eckler Ltd. was further retained to extrapolate the results of this valuation to December 31, 2008.

The valuation and extrapolation were based on:

- Membership data provided by the Commission as at December 31, 2007;
- Asset data, provided by the Commission as at December 31, 2008;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management and Eckler Ltd. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are not unreasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. We also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuations and extrapolation have been performed in accordance with accepted actuarial practice.

A. Douglas Poapst, FIA, FCIA
Eckler Ltd.

February 19, 2009

Municipal Employees' Pension Commission

Municipal Employees' Pension Plan

Financial Statements

Year Ended December 31, 2008

Auditors' Report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the Municipal Employees' Pension Plan as at December 31, 2008 and the statements of changes in net assets available for benefits and changes in accrued pension benefits and provision for annuity benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Municipal Employees' Pension Plan as at December 31, 2008 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan

February 19, 2009

Meyers Norris Penny LLP

Meyers Norris Penny
Chartered Accountants

Municipal Employees' Pension Plan

Statement 1

Statement of Net Assets Available for Benefits, Accrued Pension Benefits and Surplus

As at December 31

(in thousands)

	2008			2007
	Defined Benefit	**Retirement Annuities**	**Total**	**Total**
ASSETS				
Investments (Note 3)				
Short term	$ 11,348	$ 259	$ 11,607	$ 46,688
Bonds	217,260	4,962	222,222	263,243
Equities	298,778	6,824	305,602	383,782
Infrastructure	29,952	684	30,636	–
Pooled funds	473,923	10,824	484,747	631,528
Mortgages	-	-	-	534
Real estate	84,300	1,925	86,225	81,073
	1,115,561	25,478	1,141,039	1,406,848
Accounts receivable				
Employees' contributions	1,205	-	1,205	1,422
Employers' contributions	1,205	-	1,205	1,422
Accrued investment income	2,743	63	2,806	3,170
Other receivables	314	7	321	393
	5,467	70	5,537	6,407
Due from General Revenue Fund (Note 5)	3,649	83	3,732	1,427
Cash	430	10	440	203
Total assets	1,125,107	25,641	1,150,748	1,414,885
LIABILITIES				
Accounts payable	1,252	29	1,281	1,281
Provision for annuity benefits (Statement 3, Note 9)	-	28,598	28,598	30,940
Total liabilities	1,252	28,627	29,879	32,221
NET ASSETS AVAILABLE FOR BENEFITS	1,123,855	(2,986)	1,120,869	1,382,664
Accrued pension benefits (Statement 3, Note 8)	1,185,760	-	1,185,760	1,223,958
(DEFICIT) SURPLUS	$ (61,905)	$(2,986)	$ (64,891)	$ 158,706

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan — Statement 2
Statement of Changes in Net Assets Available for Benefits

Year Ended December 31

(in thousands)

	2008 Defined Benefit	2008 Retirement Annuities	2008 Total	2007 Total
INCREASE IN ASSETS				
Investment income				
Interest	$24,517	$592	$25,109	$ 16,549
Pooled funds	9,895	239	10,134	74,418
Dividends	11,731	283	12,014	8,367
Mortgages	124	3	127	24
Real estate	2,922	71	2,993	3,513
	49,189	1,188	50,377	102,871
Change in market value of investments	(268,817)	(6,486)	(275,303)	(43,399)
Contributions				
Employee contributions	20,688	-	20,688	19,211
Employer contributions	20,550	-	20,550	19,154
Reciprocal transfers in	1,272	-	1,272	1,055
Arrears contributions and interest	273	-	273	171
Inter-fund transfer	(665)	665	-	-
	42,118	665	42,783	39,591
Net decrease in provision for annuity benefits (Statement 3, Note 9)	-	2,342	2,342	1,770
Total (decrease) increase in assets	(177,510)	(2,291)	(179,801)	100,833
DECREASE IN ASSETS				
Transfers, refunds and benefit payments (Note 7)	31,003	-	31,003	30,462
Defined benefit payments	37,047	-	37,047	34,499
Annuities	-	4,003	4,003	4,135
Investment transaction costs	445	12	457	356
Administration costs (Note 11)	3,198	78	3,276	2,822
Investment and custodial fees (Note 11)	6,062	146	6,208	4,113
Total decrease in assets	77,755	4,239	81,994	76,387
(DECREASE) INCREASE IN NET ASSETS	(255,265)	(6,530)	(261,795)	24,446
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,379,120	3,544	1,382,664	1,358,218
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$1,123,855	$(2,986)	$1,120,869	$1,382,664

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan
Statement of Changes in Accrued Pension Benefits and Provision for Annuity Benefits

Statement 3

Year Ended December 31

	(in thousands) 2008	2007
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	$1,223,958	$1,151,904
Increase in accrued pension benefits		
Interest on accrued benefits	73,417	68,998
Benefits accrued	66,436	60,414
Transfer-in	1,272	1,055
Net experience loss	16,217	6,919
	157,342	137,386
Decrease in accrued pension benefits		
Transfers, refunds and defined benefits paid	68,050	64,961
Change in assumptions	127,153	-
Transfer to provision for annuities	337	371
	195,540	65,332
ACCRUED PENSION BENEFITS, END OF YEAR (Note 8)	$1,185,760	$1,223,958

	2008	2007
PROVISION FOR ANNUITY BENEFITS, BEGINNING OF YEAR	$30,940	$ 32,710
Increase in provision for annuity benefits		
Interest on annuity benefits	1,746	1,850
New annuities purchased	337	371
Net experience loss	421	144
	2,504	2,365
Decrease in provision for annuity benefits		
Annuities paid	4,003	4,135
Change in assumptions	843	-
	4,846	4,135
PROVISION FOR ANNUITY BENEFITS, END OF YEAR (Note 9)	$. 28,598	$ 30,940

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan
Notes to the Financial Statements

December 31, 2008

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the Plan) is comprised of three components: defined benefit, money accumulation benefit and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

The Municipal Employees' Pension Act (the Act) provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission (the "Commission") is responsible for holding in trust and investing the monies of the Plan. The Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

The Plan is registered under *The Pension Benefits Act, 1992* and is required to provide valuations every three years as to whether the Plan has sufficient assets to meet its accrued benefit obligations on an on-going basis as well as on a hypothetical wind-up basis. These valuations are filed with the Superintendent of Pensions. If the Plan has insufficient assets the Act outlines the steps to address the shortfall of assets. The Commission filed its December 31, 2007 valuations with the Superintendent which indicated the Plan is fully funded.

Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding

Employee contributions are 5.4% of salary for general members and 7.3% for police officers and firefighters. Employee contributions are matched by the employer.

B. Pensions

Employees receive a pension at age 65 for general members and age 60 for police officers and firefighters, for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

a) 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For all other service, the number of years of contributory service for the period times the greater of:

a) 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

Members who commenced employment on or after January 1, 1993:

For service earned after 2000 but before 2006, the number of years of contributory service during this period times 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters).

For all other service, the number of years of contributory service for the period times 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters).

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

Money Accumulation Component

The Money Accumulation Component consists of members who made contributions to the Money Accumulation Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump sum payment of employee and employer contributions plus interest is made.

The liability associated with the Money Accumulation Component is included in accrued pension benefits and totals $12,437,103 (2007 - $14,960,708).

Retirement Annuities Component

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of these annuities is reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

a. Basis of Presentation

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity benefits as at that date. Investment income and operating expenses have been allocated between the two components based upon the market value of assets within each component.

b. Change in Accounting Policies

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments - Disclosures* (Section 3862); and Handbook Section 3863, *Financial Instruments - Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addresses disclosure requirements, there is no change in Net assets.

Section 3862 and 3863 replaced Handbook section 3861, Financial Instruments - Disclosure and Presentation. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Plan's risks arising from financial instruments. The presentation standards carry forward unchanged from the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Plan's operating results.

c. Investments

Investments are stated at fair value. The change in the fair value of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits.

Fair value of investments is determined as follows:

Short term investments are valued at cost which, together with accrued investment income, approximates fair value given the short term nature of these investments.

Bonds and equities are valued at year-end quoted bid prices from recognized security dealers and accredited stock exchanges on which the security is principally traded.

Infrastructure investments are valued at market values supplied by the infrastructure investment manager. These market values are based on a valuation of the underlying investments performed by the infrastructure investment manager.

Pooled fund investments are valued at the unit value supplied by the pooled fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices.

Real estate is valued using market values from independent appraisals.

Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

d. Investment Income and Transaction Costs

Investment income, which is recorded on the accrual basis, includes interest income, dividends and real estate operating income. Investment transactions are recorded on the trade date.

Brokers' commissions and other transaction costs are recognized in the statement of changes in net assets available for benefits in the period incurred.

e. Foreign Currency Translation

The fair values of foreign currency denominated investments included in the statement of net assets available for benefits, accrued pension benefits and surplus are translated into Canadian dollars at year end rates of exchange. Gains and losses from translations are included in the net unrealized change in fair value of investments.

Foreign currency-denomination transactions are translated into Canadian dollars at the rates of exchange on the trade dates of the related transactions. Realized gains and losses on the sale of investments are included in the change in market value of investments.

f. Income Taxes

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

g. Provision for Annuity Benefits

Provision for annuity benefits represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the liability pursuant to the valuation or extrapolation is recognized as an increase or decrease in that year's net assets available for benefits.

h. Use of Estimates

The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statement and the recorded amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of investments, the provision for annuity benefits and accrued pension benefits. Actual results could differ from these estimates.

i. Future Accounting Policy Changes

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has issued an exposure draft proposing to adopt International Financial Reporting Standards (IFRS) effective January 1, 2011. Currently, Pension Plans are not required to convert to IFRS completely, but are to continue to comply with current standards. The Plan is monitoring the transition to IFRS and is assessing the impact that the adoption of IFRS will have on its financial statements when conversion is required.

3. Investments

Details of significant terms and conditions, exposure to interest rate and credit risks of investments are as follows:

Short Term Investments

These investments are comprised of treasury bills, notes, commercial paper and a short-term investment fund. Short-term investments held as of December 31, 2008 had effective interest rates of 0.8% to 1.9% (2007 - 1.9% to 4.8%) and an average term to maturity of 61 days (2007 - 93 days). The Plan's investment policy states that investments must meet a minimum investment standard of "R-1" or equivalent rating as rated by a recognized bond rating service. Other than the Government of Canada, no single issuer represents more than 19.7% (2007 – 15.4%) of the total Plan's short-term investments.

Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service. In addition, not more than 15% of its total bond market value may be invested in BBB rated bonds. As at December 31, 2008, the Plan held 6.1% (2007 – 1.0%) of its portfolio in BBB bonds.

The market value, coupon rates and effective interest rate to maturity are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

2008 (in thousands)

Years to Maturity	Supranational	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$2,575	$39,873	$ 6,347	$ -	$45,372	$94,167	2.70% - 6.75%	4.44%
5 to 10	-	1,295	14,359	7,150	32,936	55,740	3.75% - 7.50%	5.10%
Over 10	-	403	43,240	1,056	27,616	72,315	4.45% - 11.0%	5.55%
Market Value	$2,575	$41,571	$63,946	$8,206	$105,924	$222,222		

2007 (in thousands)

Years to Maturity	Supranational	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$ 2,419	$ 93,465	$ 10,631	$ -	$ 26,911	$ 133,426	3.75 – 6.75%	4.4%
5 to 10	-	-	16,017	3,098	22,775	41,880	3.75 – 7.50%	4.8%
Over 10	-	20,651	43,817	1,146	22,313	87,927	4.45 – 8.75%	5.0%
Market Value	$ 2,419	$ 114,116	$ 70,465	$ 4,244	$ 71,999	$ 263,243		

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation.

The investment policy allows between 26% and 46% of the Plan to be invested in foreign equities, including those held in pooled funds. As at December 31, 2008 the Plan held 8.47% (2007 – 7.1%) of the Plan's total investments in foreign equities and 25% (2007 – 28.3%) of the Plan's total investments in pooled foreign equity funds. Foreign equities are comprised of 48.6% (2007 – 49.5%) US equities and 51.4% (2007 – 50.5%) Non-North American equities.

All foreign equities are denominated in Canadian dollars.

The Plan's equities have no fixed maturity date and are generally not exposed to interest rate risk. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 3.4% (2007 – 2.1%).

Infrastructure Investments

Infrastructure investments are made through limited partnership arrangements. Advances are made to the limited partnerships, some of which is used to select and provide management support to the invested companies. The investments represent ownerships in entities that invest in infrastructure assets.

The Plan's infrastructure investments consist of the following:

	(in thousands) 2008	2007
Babcock & Brown	$ 16,048	$ –
Global Infrastructure Partners	14,588	–
	$ 30,636	$ –

The Plan's investment policy limits infrastructure investments to a maximum of 8% of Plan assets.

Babcock & Brown is a limited partnership formed to invest in North American infrastructure projects. The Plan is committed to a further investment in this limited partnership of $14.9 million in US funds over a period of up to 22 years.

Global Infrastructure Partners is a limited partnership formed to invest in worldwide infrastructure projects. The Plan is committed to a further investment in this limited partnership of $23.1 million in US funds over a period of 12 years.

Pooled Funds

The Plan's investment policy limits pooled fund holdings to not more than 10% of the market value of the individual pooled fund. Exceptions to the 10% limit are allowed if provision has been made to transfer securities in kind out of the pooled fund when assets are transferred out of the pooled fund.

The Plan's pooled funds are comprised of:

Pooled Fund	Units Held (in thousands) 2008	2007	% of Total Units Outstanding 2008	2007	Market Value (in thousands) 2008	2007
US Equity						
Barclays Hedged Pension US Equity Index Fund	11,938	11,945	13.21%	18.36%	$88,567	$145,791
Global Equity						
Greystone EAFE Plus Fund	13,051	10,809	6.69%	6.55%	84,895	109,714
Brandes Canada International Equity Unit Trust	9,843	9,366	14.54%	13.18%	111,397	141,881
Fixed Income Funds						
Barclays Universe Bond Index Class A Fund	9,296	11,565	7.34%	7.25%	199,888	234,142
					$484,747	$631,528

Pooled fund investments are governed by the policies for each fund. Financial derivatives are permitted within the pooled funds as outlined below.

Barclays funds may contain equity index futures, to replicate the return of the S&P 500 Composite Index, and currency contracts used to hedge US dollar exposure back to the Canadian dollar.

Greystone is authorized to employ the use of derivatives to protect against losses from changes in exchange rates, interest rates and market indices. These derivatives may include such instruments as options, futures, and forward contracts.

Brandes may employ the use of foreign exchange contracts to hedge against changes in exchange rates and American depositary receipts to substitute for direct investment in the underlying security.

Real Estate

Investments in real estate consist of Canadian commercial property.

The Plan holds $15,156,169 (2007 - $13,817,245) in the Greystone Real Estate pooled fund. This represents 2.32% (2007 – 2.98%) of the total outstanding units.

4. Forward Contracts

The Plan has entered into foreign exchange forwards contracts to hedge some of its foreign currency exposure in foreign equity pooled funds. Foreign exchange forwards contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

The Plan uses a currency risk management program to manage the currency exposures inherent in the foreign equity pooled funds of the Plan, as well as provide protection of the Canadian value of

the portfolio. Forward contracts are used to hedge the foreign currency exposure within the Greystone EAFE Plus Fund and the Brandes Canada International Equity Unit Trust. The following summarizes the Plan's use of foreign currency forward exchange contracts within the currency risk management program:

FOREIGN EXCHANGE FORWARD CONTRACTS

(in thousands of dollars)

		2008				2007			
# of Contracts	Currency	Market Value	Notional Value*	Gain (Loss)	Net Exposure	Market Value	Notional Value*	Gain (Loss)	Net Exposure
-	Canadian Dollar	79,064	79,064	-	-	93,809	93,809	-	-
6	European Euro	(31,769)	(28,696)	(3,073)	53.1%	(41,700)	(39,699)	(2,001)	57.8%
7	Hong Kong Dollar	(1,927)	(1,736)	(191)	50.1%	(2,641)	(2,612)	(29)	48.2%
8	Japanese Yen	(24,790)	(20,658)	(4,132)	52.4%	(28,103)	(25,891)	(2,212)	53.8%
7	Pound Sterling	(21,317)	(23,277)	1,960	44.3%	(19,572)	(19,458)	(114)	53.9%
8	Swiss Franc	(5,387)	(4,697)	(690)	47.9%	(6,520)	(6,149)	(371)	53.2%
		(6,126)	-	(6,126)		(4,727)	-	(4,727)	

Net exposure of the Greystone EAFE Plus Fund and Brandes Canada International Equity Trust Unit is the percentage of investments denominated in foreign currency that are not hedged through forward exchange contracts.

The Active Foreign Currency Manager has two objectives within the Plan. The first is to hedge against the foreign equity exposures that exist in the underlying portfolio of Non-North American equity mandates. The Active Foreign Currency Manager's benchmark hedge ratio is 50% of the underlying portfolio, although the manager has the discretion to apply a hedge ratio between 0-100% of the underlying portfolio. Hedging is limited to those foreign currency exposures that are included in the MCSI EAFE Index and excludes any Canadian Dollar exposures.

The second objective of the Active Foreign Currency Manager is to add value to the Plan by generating returns from relative movements between foreign currencies. This second objective is independent of the first and is not restricted to those currencies that exist in the underlying portfolio.

The following summarizes the Plan's use of these foreign currency forward exchange contracts:

FOREIGN CURRENCY FORWARD CONTRACTS
(in thousands of dollars)

	2008		2007	
	Market Value	Notional Value*	Market Value	Notional Value*
European Euro	$ 3,373	$ 3,373	$ (254)	$ (254)
United States Dollar	(3,272)	(3,373)	435	254
Net gain	$ 101	$ -	$ 181	$ –
European Euro	$ 2,835	$ 2,835	$ 270	$ 270
Japen Yen	(2,115)	(2,835)	(815)	(270)
Net gain / (loss)	$ 720	$ -	$ (545)	$ –
Australian Dollar	$ 663	$ (663)	$ (114)	$ (114)
United States Dollar	(658)	663	94	114
Net gain / (loss)	$ 5	$ -	$ (20)	$ –
United States Dollar	$ 396	$ (396)	$ 3,446	$ 3,446
Japen Yen	90	396	(3,958)	(3,446)
Net gain / (loss)	$ 486	$ -	$ (512)	$ –

*Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded in the financial statements.

Based on the current rate of exchange as of December 31, 2008, the forward contracts under both Plan objectives are in a net loss position of $4,813,704 (2007 – loss of $5,623,374). The foreign currency forward exchange contracts are short-term in duration and all current contracts as of December 31, 2008 have a maturity date of April 22, 2009. This amount is included in short term investments on the Statement of Net Assets Available for Benefits.

5. Due from General Revenue Fund

The Municipal Employees' Pension Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the Municipal Employees' Pension Plan's average daily bank account balance. The Government's thirty-day borrowing rate for 2008 was 2.6% (2007 - 4.3%).

6. Earnings Allocation to Members

Part of the change in market values of investments is allocated annually to members of the Plan. The maximum market value change deferred to future years is 3% of the total market value of investments at December 31 of each year. Unallocated changes are recognized equally in each of the three subsequent years. At December 31, 2008 the change in market value not yet allocated to members is a loss of $34,231,186 (2007 – loss of $8,470,107).

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. In 2008 an interest rate of -16.23% (2007 – 7.32%) was approved by the Commission for the Money Accumulation Component and the Defined Benefit Component. The interest allocated is investment income, the current year's allocation of the change in market values of the investments, less administration, custodian and investment managers' fees.

7. Transfers, Refunds and Benefit Payments

	(in thousands)	
	2008	**2007**
Transfers to other retirement plans	$ 1,304	$ 890
Transfer to other retirement vehicles	14,189	19,922
Lump sum payments to estates	4,361	1,563
Payments in lieu of annuities	6,092	2,508
Withdrawals with interest	5,057	5,579
	$31,003	$30,462

8. Accrued Pension Benefits

The actuarial present value of pension benefits for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and the administrator's best estimate of future investment performance, salary escalation, inflation, and future pension indexing.

An actuarial valuation was performed as at December 31, 2007 by Eckler Ltd. and they extrapolated the results of that valuation to December 31, 2008.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The assumptions used in determining the actuarial present value of pension benefits for the Defined Benefit Component of the Plan were:

	2008	**2007**
Interest rate	6.5%	6.0%
Salary escalation rate first 5 years	4.5%	3.5%
Salary escalation thereafter	3.5%	3.5%
Inflation	2.5%	2.5%
Indexation of pensions	2% for pre-1999 benefits, none for post-1998 benefits	2% for pre-1999 benefits, 50% of inflation for post-1998 benefits
Mortality	UP94 (projected to 2015)	UP94 (projected to 2015)

Net experience gains and losses result from differences between actual and expected employee terminations, retirements, salary increases and deaths.

Actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed escalation rates of salary 4.5% for the first 5 years, 3.5% thereafter, interest rate 6.5% and no indexing on post-1998 benefits. The changes in assumptions are independent of one another.

	Effect on Accrued Pension Benefits Liability				
	Salary		Interest Rate		Pension Indexing (post 1998)
Assumptions	3.5% (5) 2.5% (+)	5.5% (5) 4.5% (+)	5.5%	7.5%	1.00%
(Decrease) Increase	(3.0%)	3.5%	14.3%	(10.9%)	(3.8%)

9. Provision for Annuity Benefits

The provision for annuity benefits was determined using the administrator's best estimate of future investment performance and future pension indexing. Eckler Ltd. performed an actuarial valuation of annuities as at December 31, 2007 and extrapolated the results of that valuation to December 31, 2008.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities) and mortality as follows:

	2008	2007
Interest rate	6.5%	6.0%
Indexation of pensions	2.5%	2.5%
Mortality	UP94 (projected to 2015)	UP94 (projected to 2015)

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 6.5% and pension indexing of 2.5%. The changes in assumptions are independent of one another.

	Effect on Provision for Annuity Benefits			
	Interest Rate		Pension Indexing	
Assumptions	5.5%	7.5%	1.5%	3.5%
(Decrease) Increase	6.3%	(5.6%)	(0.3%)	0.3%

In the future, increases on non-indexed annuities will be granted to the extent that smoothed investment earnings exceed 6.0%. While an increase in the interest rate above 6.0% would normally reduce the liability, in this case there would be a corresponding increase in the amount of annuities and the net affect on the liability would be zero. Excess interest increases for non-indexed annuities in any year will not be greater then the increase in the Consumer Price Index for the previous year.

The cash outflow to pay the required annuity obligation is calculated using the above assumptions. The cash outflows in the next 5 years would be $17.1 million, in the next 10 years $29.3 million and in the next 30 years $44.1 million.

10. Financial Risk Management

The nature of the Plan's operations result in a statement of net assets available for benefits accrued pension benefits and surplus that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy, which is approved annually by the Commission. The investment policy provides guidelines to the Plan's investments managers for the asset mix of the portfolio regarding quality and quantity of fixed term investments, real estate and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives are allowed within the Plan to hedge against losses and substitute for direct investment. The Commission's policy prevents the use of derivatives for speculative trading or to create a portfolio with leverage. The Commission reviews regular compliance reports from its investment managers and custodian as to their compliance with the investment policy. The Commission also reviews regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2008 is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $'s) 2008 Carrying value	2007 Carrying value
Cash	$ 440	$ 203
Accounts receivable	5,537	6,407
Fixed income investments[1]	433,717	544,607
Due from the General Revenue Fund	3,732	1,427

[1] Includes short-term investments, bonds and the fixed income pooled fund.

Accounts receivable are primarily made up of employee and employer contributions receivable and accrued investment income. Employee and employer contributions receivable are generally received in less than 30 days. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within investments is primarily related to short-term investments, bonds, and the fixed income pooled fund. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit rating for bonds are as follows:

	2008		2007	
Credit Rating	Fair Value (thousands of $)	Makeup of Portfolio (%)	Fair Value (thousands of $)	Makeup of Portfolio (%)
AAA	$ 80,087	36.04	$ 145,478	55.26
AA	71,457	32.16	61,929	23.53
A	57,160	25.72	53,165	20.20
BBB	13,518	6.08	2,671	1.01
Total	$ 222,222	100.0	$ 263,243	100.0

Within bond investments, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 3.8% of the market value of the combined bond and short term investment portfolios. No one holding of a province is over 6.13% of the market value of the bond portfolio.

The Plan is also subject to credit risk through its use of forward currency contracts. The contracts are entered into between the Plan and approved counterparties. The credit risk is mitigated by limiting counterparties to specific entities approved by the Commission and by settling contracts on a semi-annual basis. The currency manager must receive approval from the Commission prior to engaging a new counterparty.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and the fixed income pooled fund. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets available for benefits and surplus by $26.2 million at December 31, 2008; representing 6.2% of the $422 million fair value of fixed income investments. Conversely, a decrease in interest rates of 100 basis points would increase net assets available for benefits and surplus by $26.2 million at December 31, 2008; representing 6.2% of the $422 million fair value of fixed income investments.

Foreign exchange

The Plan is subject to changes in the U.S./Canadian dollar exchange rate units U.S. denominated investments. Also, the Plan is exposed to EAFE (Europe, Australia and Far East) currencies through its investment in global equity pooled funds. Exposure to both U.S. equities and non-North American equities, including pooled equity fund, is limited to a maximum 46% each of the market value of the total investment portfolio. At December 31, 2008, the Plan's exposure to U.S. equities was 16.2% (2007 – 17.4%) and its exposure to non-north American equities was 17.2% (2007 – 17.9%).

At December 31, 2008, a 10% appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $12.4 million decrease in the increase in net assets available for benefits and surplus. A 10% weakening in the Canadian dollar versus the EAFE currencies would result in approximately a $11.2 million increase in the increase in net assets available for benefits and surplus.

The Plan's exposure to exchange rate risk resulting from the purchase of goods and services are not considered material to the operations of the Plan. The Plan has mitigated its exposure to foreign exchange through the use of derivatives as in Note 4. As at December 31, 2008, the Plan's exposure net of derivatives is $235.8 million. A 10% change in the exchange rate would equate to a net change of $23.6 million.

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 51.6% (2007 – 55.5%) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee represents greater than 10% of the market value of the Plan. As well, no one holding represents more than 30% of the outstanding share issue of any corporation.

The following table indicates the approximate change that could be anticipated to both the increase in net assets available for benefits and surplus based on changes in the Plan's benchmark indices December 31, 2008:

	(Change in thousands of $) 10% increase	10% decrease
S&P/TSX Composite Index	$ 21,194	$ (21,194)
S&P 500 Index	18,223	(18,223)
MSCI EAFE Index	19,629	(19,629)

Securities collateral

At December 31, 2008, no Plan assets have been deposited or pledged as collateral or margin. As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2008, the total amount of collateral pledged to the Plan amounted to $87.0 million (2007 - $175.7 million). Security lending obtains collateral of at least 105% of the market value of the securities lent. Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and /or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Real Estate and Infrastructure Investment Risk

Risk in the real estate portfolio and infrastructure investments are managed through diversification across types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable are due within one year.

11. Administration Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

	(in thousands of dollars)			
		2008		2007
	Budget	Actual	Budget	Actual
	(unaudited)		(unaudited)	
Administration costs	$3,594	$3,276	$3,275	$2,822
Custodial fees	133	210	145	207
Investment fees	4,981	5,998	3,723	3,906
	$8,708	$9,484	$7,143	$6,935

12. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related to the Plan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan collectively referred to as "related parties". Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds $6,749,701 (2007 - $2,198,789) in Province of Saskatchewan Bonds. Investment gain on these bonds, including the current period change in the market value of investments, was $236,315 (2007 – loss of $113,282).
The Plan has an accounts payable balance as at December 31, 2008 of $444,667 (2007 - $269,960) due to the Public Employees Benefits Agency Revolving Fund.

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled at agreed upon exchange rates.

13. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	2008	Rolling Four Year Average Annual Return
Plan's actual rate of return before deducting investment and administration expenses	-16.2%	2.7%
Benchmark	-17.7%	1.7%

The Plan's benchmark for its investment portfolio has been determined using the actual returns of the market indexes such as the S&P/TSX Capped Composite Index, Standard & Poor's 500 Hedged U.S. Stock Index, Russell 2500 Hedged index, Morgan Stanley, Europe, Australasia and Far East Index, DEX Universe Bond Index, 91 Day Canadian Treasury Bill, and Investment Property Databank Ltd. Return Index.

14. Fair Value

For financial instruments including due from general revenue fund, short-term investments, accounts receivable, and accounts payable, cost approximates fair value due to their immediate or short-term maturity.

The fair values of investments are considered to be market value, the calculation of which is detailed in Note 2. The fair value of the provision for annuity benefits, as well as the accrued pension benefits, cannot be readily determined; information about these liabilities is provided in Notes 8 and 9.

15. Contingencies

A union representing participating employees has applied by Notice of Motion, which also names several participating employers, for an order quashing purported decisions of the Commission relating to the application of actuarial surplus in the fund, as well as other relief. It is not possible to estimate the potential effect of the claim at this stage in the proceedings.

16. Subsequent Events

On January 16, 2009 the Commission approved a recommendation to the Minister of Finance that *The Municipal Employees' Pension Regulations* be amended to increase:

- The general members contribution rate to 6.4 per cent from 5.4 per cent effective January 1, 2010; and
- The designated police officer and firefighter member contribution rate be increase to 8.75 per cent from 7.3 per cent effective January 1, 2010.

Additionally, the Commission will inform the Minister of Finance that it will recommend a contribution rate increase for members of the Plan effective January 1, 2011, the second year of the phase-in of contribution rate increases, based on the results of the actuarial valuation of the Plan as at December 31, 2008.

17. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

Appendix 'A'

Description of Market Indices

S&P/TSX Composite

Effective May 1, 2002, the TSE 300 index is now known as the S&P/TSX Composite Index. The index comprises approximately 71 per cent of market capitalization for Canadian-based, Toronto Stock Exchange listed companies. It is calculated on a float market capitalization and is the broadest Canadian equity index available. The index also serves as the premier benchmark for Canadian pension funds and mutual market funds.

S&P/TSX CPMS Cap 10

S&P/TSX CPMS Cap 10 Index is a capitalization-weighted index comprised of all of the stocks included in the S&P/TSX Composite Index. The float capitalization weight of any stock that exceeds 10% of the S&P/TSX Composite Index is capped at 10% of the CPMS Cap 10 Index on a daily basis.

S&P 500

Standard & Poor's 500 Composite Stock Index consists of the largest 500 companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the index proportionate to its market value. For the purposes of this report, the S&P Index returns are converted from U.S. dollars into Canadian dollars and, therefore, reflect currency gains or losses.

MSCI EAFE

Morgan Stanley Capital International Europe, Australia and Far East Index is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 21 European and Pacific Basin Countries and includes reinvestment of all dividends. This index aims to capture 85% of the free float adjusted market capitalization in each industry group in each country. Individuals cannot invest directly in an index. The index is computed on a float-based capitalization.

SC UBI

Scotia Capital Markets Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains over 900 marketable Canadian bonds with an average term of 9 years and an average duration of 5.5 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index.

IPDCPI

The ICREIM/IPD Canadian Property Index is published by Investment Property Databank Ltd., under contract with the Canadian Institute of Real Estate Investment Managers. The index replaces the Russell Canadian Property Index, which was discontinued at the end of 2002. The IPD Index measures total returns on a diversified pool of properties. IPD compiles property level information from pension funds, life insurance companies and real estate managers on a quarterly basis. The index contains over 1,700 properties and is estimated to represent approximately 50% of institutional holdings and publicly listed vehicles.

Appendix 'A'

91-Day T-Bills

Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-Bills with an average term to maturity of 91 days. The Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

CPI

Consumer Price Index is used to gauge Canada's inflation rate. The series used is the all items, not seasonally adjusted, 1992 base.

Russell 2500

The Russell 2500 Index offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.